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 (Stock Code: 1133)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

The Board of Directors of Harbin Electric Company Limited (the “Company”) is pleased to announce the audited operating results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2011, which were prepared in accordance with the accounting principles generally accepted in Hong Kong.

CONSOLIDATED INCOME STATEMENT

31 RMB 2011

		2011 <i>RMB'000</i>	2010 '000 (restated)
Revenue	5	28,487,782	29,172,224
Cost of sales		(22,777,148)	(24,982,419)
Gross profit		5,710,634	4,189,805
Other revenue and net income	6	490,785	960,853
Distribution expenses		(558,036)	(508,789)
Administrative expenses		(3,040,175)	(2,754,880)
Other operating expenses		(969,230)	(411,337)
Finance costs	7()	(72,552)	(139,544)
Share of profits less losses of associates		78,534	25,793

		2011 RMB'000	2010 '000 (restated)
Profit before taxation	7	1,639,960	1,361,901
Income tax	()	<u>(256,686)</u>	<u>(268,950)</u>
Profit for the year		<u>1,383,274</u>	<u>1,092,951</u>
Attributable to:			
Equity shareholders of the Company		1,228,661	1,001,108
Non-controlling interests		<u>154,613</u>	<u>91,843</u>
		<u>1,383,274</u>	<u>1,092,951</u>
Earnings per share			
— Basic and diluted		<u>RMB89.2 cents</u>	<u>RMB72.7 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

31 ~~8~~ 2011

	2011 <i>RMB'000</i>	2010 '000 (restated)
Profit for the year	1,383,274	1,092,951
Other comprehensive loss for the year, net of income tax		
Cash flow hedges	(32,671)	—
Income tax relating to component of other comprehensive income	4,901	—
	<u>(27,770)</u>	<u>—</u>
Total comprehensive income for the year	<u>1,355,504</u>	<u>1,092,951</u>
Attributable to:		
Equity shareholders of the Company	1,200,891	1,001,108
Non-controlling interests	154,613	91,843
	<u>1,355,504</u>	<u>1,092,951</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 ~~st~~ 2011

	2011 <i>RMB'000</i>	2010 '000 (restated)
Non-current assets		
Investment properties	4,810	4,991
Property, plant and equipment	5,799,944	4,890,113
Prepaid lease payments	433,000	419,466
Intangible assets	261,732	90,321
Deferred tax assets	277,366	205,071
Interests in associates	546,899	328,640
Other non-current financial assets	332,722	53,637
	7,656,473	5,992,239
Current assets		
Inventories	11,616,296	12,824,895
Trade receivables	11 12,918,135	11,270,063
Bills receivable	11 1,052,526	982,083
Other receivables, deposits and prepayments	11 4,484,066	4,541,796
Prepaid lease payments	11,922	13,242
Amounts due from customers for contract work	1,849,593	894,923
Amounts due from fellow subsidiaries	59,929	112,920
Derivative financial instruments	92,641	104,276
Trading securities	2,001,530	1,188,000
Restricted bank deposits	2,506	5,000
Pledged bank deposits	131,155	276,493
Bank deposits	247,404	1,090,860
Cash and cash equivalents	8,271,875	11,459,319
	42,739,578	44,763,870
Current liabilities		
Derivative financial instruments	3,730	—
Amounts due to customers for contract work	1,413,194	1,274,290
Trade payables	12 14,646,188	11,867,247
Other payables, accruals and provisions	12 3,934,593	2,852,629
Deposits received	7,483,656	11,891,531
Amounts due to fellow subsidiaries	36,266	24,418
Advance from holding company	2,785	20,478
Borrowings — due within one year	581,623	627,005
Tax payables	920,618	816,233
	29,022,653	29,373,831

	2011 <i>RMB'000</i>	2010 '000 (restated)
Net current assets	13,716,925	15,390,039
Total assets less current liabilities	21,373,398	21,382,278
Non-current liabilities		
Derivative financial instruments	28,941	—
Deposits received	6,337,141	7,592,559
Advance from holding company	1,169,838	1,042,918
Borrowings — due after one year	1,314,244	1,582,959
	8,850,164	10,218,436
NET ASSETS	12,523,234	11,163,842
CAPITAL AND RESERVES		
Share capital	1,376,806	1,376,806
Reserves	9,224,814	8,324,642
Total equity attributable to equity shareholders of the Company	10,601,620	9,701,448
Non-controlling interests	1,921,614	1,462,394
TOTAL EQUITY	12,523,234	11,163,842

NOTES

1. GENERAL INFORMATION

The Company was established as a joint stock company in the People's Republic of China (the "PRC") and its H shares are listed on The Stock Exchange of Hong Kong Limited. Its parent and ultimate parent company is Harbin Electric Corporation ("HE"), a state-owned enterprise established in the PRC. HE has not produced financial statements available for public use.

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand unless otherwise indicated. RMB is the Company's functional and presentation currency.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value:

- financial instruments classified as trading securities, and
- derivative financial instruments.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND MERGER ACCOUNTING FOR COMMON CONTROL COMBINATION

New and revised HKFRSs

The Group has adopted the following new and revised Standards, Amendments and Interpretations (“new and revised HKFRSs”) that are first effective for the current accounting period.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures ^(#)
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

^(#) The Group had early applied the partial exemption from the disclosure requirements for government-related entities for its annual consolidated financial statements for the year ended 31 December 2010.

The application of these new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Merger accounting for common control combination

In May 2011, the Group acquired 55.64% of the equity interest of 哈爾濱電機廠(昆明)有限公司 (“Kunming Generator”) by way of capital contribution of RMB250,000,000 (the “Capital Contribution”) to Kunming Generator. Kunming Generator is a company incorporated in the PRC and principally engaged in the business of manufacturing of small-scale hydro power equipment. Before the Capital Contribution, the Group’s ultimate parent company, HE, had previously obtained a controlling equity interest of 78% on Kunming Generator in 2010.

The Group’s acquisition is considered as business combination involving entities under common control and has been accounted for using merger accounting method, based on the Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA for the year ended 31 December 2011. Under the principles of merger accounting, the consolidated financial statements have been prepared as if Kunming Generator and its subsidiaries have been subsidiaries of the Group for the year ended 31 December 2010. As a result, the comparative consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 December 2010 and consolidated statement of financial position as at 31 December 2010 have therefore been restated, in order to include the results of the combining entities since the date of which first come under common control.

The effects of the combination of Kunming Generator on the Group's consolidated income statement and consolidated statement of comprehensive income for the year ended 31 December 2010 by line items is as follows:

	31 December 2010 '000 (previously reported)	Combination of Kunming Generator '000	Elimination adjustments '000	31 December 2010 '000 (restated)
Revenue	28,815,543	370,770	(14,089)	29,172,224
Cost of sales	<u>(24,665,786)</u>	<u>(331,322)</u>	<u>14,689</u>	<u>(24,982,419)</u>
Gross profit	4,149,757	39,448	600	4,189,805
Other revenue and net income	948,150	14,046	(1,343)	960,853
Distribution expenses	(483,997)	(24,792)	—	(508,789)
Administrative expenses	(2,686,530)	(68,350)	—	(2,754,880)
Other operating expenses	(410,931)	(406)	—	

The effects of the combination of Kunming Generator on the Group's consolidated statement of financial position as at 31 December 2010 by line items is as follows:

	31 December 2010 '000 (previously reported)	Combination of Kunming Generator '000	Elimination adjustments '000	31 December 2010 '000 (restated)
NON-CURRENT ASSETS				
Investment properties	4,991	—	—	4,991
Property, plant and equipment	4,815,171	74,942	—	4,890,113
Prepaid lease payments	367,348	52,118	—	419,466
Intangible assets	90,321	—	—	90,321
Deferred tax assets	193,878	11,193	—	205,071
Interests in associates	328,490	150	—	328,640
Other non-current financial assets	35,941	17,696	—	53,637
	<u>5,836,140</u>	<u>156,099</u>	<u>—</u>	<u>5,992,239</u>
CURRENT ASSETS				
Inventories	12,562,801	262,094	—	12,824,895
Trade receivables	11,122,830	152,220	(4,987)	11,270,063
Bills receivable	980,496	1,587	—	982,083
Other receivables, deposits and prepayments	4,506,705	69,319	(34,228)	4,541,796
Prepaid lease payments	12,058	1,184	—	13,242
Amounts due from customers for contract work	894,923	—	—	894,923
Amounts due from fellow subsidiaries	112,920	—	—	112,920
Derivative financial instruments	104,276	—	—	104,276
Trading securities	1,188,000	—	—	1,188,000
Restricted bank deposits	—	5,000	—	5,000
Pledged bank deposits	249,294	27,199	—	276,493
Bank deposits	1,090,000	860	—	1,090,860
Cash and cash equivalents	11,425,774	33,545	—	11,459,319
	<u>44,250,077</u>	<u>553,008</u>	<u>(39,215)</u>	<u>44,763,870</u>

	31 December 2010 <i>'000</i> (previously reported)	Combination of Kunming Generator <i>'000</i>	Elimination adjustments <i>'000</i>	31 December 2010 <i>'000</i> (restated)
CURRENT LIABILITIES				
Amounts due to customers for contract work	(1,274,290)	—	—	(1,274,290)
Trade payables	(11,746,026)	(126,208)	4,987	(11,867,247)
Other payables, accruals and provisions	(2,799,289)	(53,340)	—	(2,852,629)
Deposits received	(11,681,047)	(214,712)	4,228	(11,891,531)
Amounts due to fellow subsidiaries	(24,418)	—	—	(24,418)
Advance from holding company	(20,478)	—	—	(20,478)
Borrowings — due within one year	(507,005)	(150,000)	30,000	(627,005)
Tax payables	(815,084)	(1,149)	—	(816,233)

The effects of the combination of Kunming Generator on the Group's equity as at 31 December 2010 is as follows:

	31 December 2010 '000 (previously reported)	Combination of Kunming Generator '000	Elimination adjustments '000	31 December 2010 '000 (restated)
Share capital	1,376,806	38,840	(38,840)	1,376,806
Share premium	1,980,295	—	—	1,980,295
Statutory capital reserve	709,850	72,381	(72,381)	709,850
Statutory surplus reserve	596,936	20,259	(20,259)	596,936
Other reserves	74,421	—	87,055	161,476
Retained profits	4,899,475	(3,819)	(19,571)	4,876,085
Non-controlling interests	1,395,411	2,987	63,996	1,462,394
	<u>11,033,194</u>	<u>130,648</u>	<u>—</u>	<u>11,163,842</u>

5. REVENUE

Revenue, which is also the Group's turnover, represents the amounts received and receivable for goods sold and services rendered by the Group to customers during the year, net of taxes and sales returns, and an analysis of the Group's revenue for the year as follows:

	2011 RMB'000	2010 '000 (restated)
Sales of goods	22,539,408	21,473,509
Revenue from construction contracts	5,948,374	7,691,199
Revenue from services rendered	—	7,516
	<u>28,487,782</u>	<u>29,172,224</u>

For the year ended 31 December 2011, there was no customer with whom transactions have exceeded 10% of the Group's revenue (2010: Nil).

6. OTHER REVENUE AND NET INCOME

	2011 <i>RMB'000</i>	2010 '000 (restated)
Other revenue		
Interest income from held-to-maturity bonds	6,085	—
Other interest income	246,160	277,728
	<hr/>	<hr/>
Total interest income on financial assets not at fair value through profit or loss	252,245	277,728
Compensation income	3,181	60,617
Dividend income from trading securities	50,000	—
Dividend income from unlisted equity securities	7,358	1,120
PRC government subsidy	380,675	335,603
Rental income	7,145	2,289
Other income	92,131	26,628
	<hr/>	<hr/>
	792,735	703,985
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Other net income/(loss)		
Net gain on disposal of property, plant and equipment	3,850	6,122
Net gain on disposal of investment properties	—	550
Net profit from sale of scrap materials and others	839	1,461
Gain on disposal of subsidiaries	389	150,349
Gain on disposal of trading securities	7,606	—
Gain on disposal of available-for-sale investments	1,174	—
Fair value gains on derivative financial instruments not qualifying as hedges	78,704	104,276
Reversal of impairment loss of property, plant and equipment	—	1,110
Fair value losses on trading securities	(394,512)	(7,000)
	<hr/>	<hr/>
	(301,950)	256,868
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	490,785	960,853
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7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2011 <i>RMB'000</i>	2010 '000 (restated)
(a) Finance costs		
Interest on bank and other borrowings:		
— wholly repayable within five years	60,183	134,135
— not wholly repayable within five years	17,690	18,690
	<hr/>	<hr/>
Total interest expenses on financial liabilities not at fair value through profit or loss	77,873	152,825
· interest expense capitalised into construction in progress	(5,321)	(13,281)
	<hr/>	<hr/>
	72,552	139,544
	<hr/> <hr/>	<hr/> <hr/>

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.40% (2010: 4.78%) per annum to expenditure on qualifying assets.

	2011 <i>RMB'000</i>	2010 '000 (restated)
(b) Staff costs[#]		
Staff costs including directors' and supervisors' emoluments	1,569,233	1,364,342
Post-employment benefit scheme contributions	301,251	262,587
	<hr/>	<hr/>
Total staff costs	1,870,484	1,626,929
	<hr/> <hr/>	<hr/> <hr/>
(c) Other items		
Allowance for doubtful debts	618,868	574,012
Allowance for inventories	115,526	134,867
Amortisation of intangible assets [#]	19,110	12,993
Amortisation of prepaid lease payments [#]	11,922	13,242
Auditors' remuneration	2,850	2,520
Cost of inventories [#]	22,777,148	24,997,108
Depreciation for investment properties [#]	181	181
Depreciation for property, plant and equipment [#]	527,497	465,459
Net foreign exchange loss	113,123	95,834
Impairment loss recognised in respect of intangible assets	—	3,945
Impairment loss recognised in respect of available-for-sale investments	1,000	—
Reversal of impairment loss on doubtful debts	(42,695)	—
Property, plant and equipment written off	—	5,970
Research and development expenses	339,617	658,630
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[#] Cost of inventories includes RMB1,636,299,000 (2010 (restated): RMB1,404,128,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2011 <i>RMB'000</i>	2010 '000 (restated)
Current tax		
PRC enterprise income tax		
— provision for the year	370,078	362,131
— (over)-provision in respect of prior years	(45,607)	(28,934)
	324,471	333,197
Deferred tax		
Origination and reversal of temporary differences	(67,785)	(64,247)
	256,686	268,950

On 21 November 2008, the Company was named as one of the High and New Technology Enterprise (高新技術企業). According to the PRC Law on Enterprise Income Tax promulgated on 16 March 2007, the Company is entitled to a concessionary rate of enterprise income tax at 15% over 3 years, beginning on 17 November 2011.

Except for certain subsidiaries which are subject to an enterprise income tax rate of 15%, other subsidiaries located in the PRC are subject to the PRC enterprise income tax at a rate of 25% (2010: 25%) on its assessable profits.

- (b) According to Circular Guoshuihan [2008] No. 897 “Notice on the issue about withholding Enterprise Income Tax on the dividends paid by Chinese resident enterprises to overseas non-resident enterprises H-share holders” issued by State Administration of Taxation on 6 November 2008, where a Chinese resident enterprise pays dividends for the year of 2008 or any year thereafter to its H-share holders which are overseas non-resident enterprises, it shall withhold the enterprise income tax on the basis of 10% of the dividends. In accordance with this circular, the Company would withhold the enterprise income tax with tax rate of 10% when it pays dividends for the year of 2008 or any year thereafter to its overseas non-resident enterprise H-shares holders.

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB1,228,661,000 (2010 (restated): RMB1,001,108,000) and on the weighted average number of ordinary shares of 1,376,806,000 (2010: 1,376,806,000) in issue during the year.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares in issue during the years ended 31 December 2011 and 2010, and diluted earnings per share is the same as basic earnings per share.

10. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the directors of the Company, the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has presented the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

Information regarding the Group's reportable segments as provided to the Group's directors for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below.

2011

	Main thermal power equipment <i>RMB'000</i>	Main hydro power equipment <i>RMB'000</i>	Engineering services for power stations <i>RMB'000</i>	Ancillary equipment for power stations <i>RMB'000</i>	AC/DC motors and others <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers	17,295,041	3,162,786	5,104,920	719,100	2,205,935	28,487,782
Inter-segment revenue	3,247,639	—	—	—	—	3,247,639
Reportable segment revenue	<u>20,542,680</u>	<u>3,162,786</u>	<u>5,104,920</u>	<u>719,100</u>	<u>2,205,935</u>	<u>31,735,421</u>
Reportable segment profit	<u>3,998,910</u>	<u>958,992</u>	<u>278,315</u>	<u>286,505</u>	<u>343,872</u>	<u>5,866,594</u>
Depreciation of property, plant and equipment	372,050	95,720	7,796	5,450	46,481	527,497
Depreciation of investment properties	—	—	—	—	181	181
Amortisation of intangible assets	10,270	236	—	499	8,105	19,110
Amortisation of prepaid lease payments	7,854	2,778	48	183	1,059	11,922
Allowances for doubtful debts	444,860	77,254	45,153	16,754	34,847	618,868
Interest income	(113,616)	(31,265)	(97,455)	(3,917)	(5,992)	(252,245)
Interest expenses	19,053	5,798	47,503	198	—	72,552
Reversal of impairment loss on doubtful debts	(14,246)	(9,709)	(18,257)	—	(483)	(42,695)
Reportable segment assets	28,467,215	4,772,229	3,394,865	712,866	3,694,413	41,041,588
Additions to non-current segment assets during the year	1,033,470	208,445	25,955	11,246	470,860	1,749,976
Reportable segment liabilities						

2010

	Main thermal power equipment '000	Main hydro power equipment '000 (restated)	Engineering services for power stations '000	Ancillary equipment for power stations '000	AC/DC motors and others '000 (restated)	Total '000 (restated)
Revenue from external customers	17,984,152	2,599,998	5,060,211	919,028	2,608,835	29,172,224
Inter-segment revenue	3,655,382	—	—	—	—	3,655,382
Reportable segment revenue	<u>21,639,534</u>	<u>2,599,998</u>	<u>5,060,211</u>	<u>919,028</u>	<u>2,608,835</u>	<u>32,827,606</u>
Reportable segment profit	<u>2,629,949</u>	<u>619,133</u>	<u>170,478</u>	<u>307,563</u>	<u>558,336</u>	<u>4,285,459</u>
Depreciation of property, plant and equipment	314,336	73,258	11,904	8,933	57,028	465,459
Depreciation of investment properties	—	—	—	—	181	181
Amortisation of intangible assets	11,038	271	—	568	1,116	12,993
Amortisation of prepaid lease payments	7,097	2,400	41	234	3,470	13,242
Allowances for doubtful debts	441,736	50,959	(1,079)	18,546	63,850	574,012
Interest income	(118,072)	(31,700)	(110,386)	(3,982)	(13,588)	(277,728)
Interest expenses	31,527	7,191	96,514	517	3,795	139,544
Reportable segment assets	26,426,075	3,426,207	3,853,640	969,260	3,937,948	38,613,130
Additions to non-current segment assets during the year	638,313	82,952	31,797	12,808	310,413	1,076,283
Reportable segment liabilities	<u>26,382,460</u>	<u>3,176,327</u>	<u>3,803,714</u>	<u>1,060,681</u>	<u>2,731,652</u>	<u>37,154,834</u>

(b) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities

	2011 <i>RMB'000</i>	2010 '000 (restated)
Revenue		
Reportable segment revenue	31,735,421	32,827,606
Elimination of inter-segment revenue	(3,247,639)	(3,655,382)
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Consolidated turnover	28,487,782	29,172,224
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Profit		
Reportable segment profit	5,866,594	4,285,459
Elimination of inter-segment profits	(155,960)	(95,654)
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Reportable segment profit derived from Group's external customers	5,710,634	4,189,805
Finance costs	(72,552)	(139,544)
Interest income	252,245	277,728
Share of profits less losses of associates	78,534	25,793
Fair value loss on trading securities	(394,512)	(7,000)
Expected loss	(814,924)	(248,402)
Unallocated head office and corporate expenses	(3,119,465)	(2,736,479)
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Consolidated profit before taxation	1,639,960	1,361,901
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Assets		
Reportable segment assets	41,041,588	38,613,130
Interests in associates	546,899	328,640
Deferred tax assets	277,366	205,071
Other non-current financial assets	332,722	53,637
Derivative financial instruments	92,641	104,276
Trading securities	2,001,530	1,188,000
Unallocated head office and corporate assets	6,103,305	10,263,355
	<hr/>	<hr/>
Consolidated total assets	50,396,051	50,756,109
	<hr/>	<hr/>
Liabilities		
Reportable segment liabilities	34,940,609	37,154,834
Income tax payables	635,239	406,831
Derivative financial instruments	32,671	—
Advance from holding company	1,172,623	1,063,396
Unallocated head office and corporate liabilities	1,091,675	967,206
	<hr/>	<hr/>
Consolidated total liabilities	37,872,817	39,592,267
	<hr/>	<hr/>

Trade receivables and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	2011 <i>RMB'000</i>	2010 '000 (restated)
Within 1 year	7,824,717	5,668,971
1 to 2 years	2,430,624	2,616,726
2 to 3 years	1,374,045	3,273,047
Over 3 years	2,341,275	693,402
	<u>13,970,661</u>	<u>12,252,146</u>

12. TRADE PAYABLES/OTHER PAYABLES, ACCRUALS AND PROVISIONS

	2011 <i>RMB'000</i>	2010 '000 (restated)
Trade payables	14,646,188	11,867,247
Bills payable	1,900,795	1,505,108
	<u>16,546,983</u>	<u>13,372,355</u>
Provisions	1,463,359	783,397
Other payables and accrued charges	570,439	564,124
	<u>18,580,781</u>	<u>14,719,876</u>

Trade and bills payables with the following ageing analysis as of the end of reporting period is as follows:

	2011 <i>RMB'000</i>	2010 '000 (restated)
Within 1 year	15,584,796	11,476,206
1 to 2 years	278,938	1,204,406
2 to 3 years	389,386	549,995
Over 3 years	293,863	141,748
	<u>16,546,983</u>	<u>13,372,355</u>

13. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year.

	2011 <i>RMB'000</i>	2010 '000
Final dividend proposed after the end of the reporting period of RMB0.14 per ordinary share (2010: RMB0.14 per ordinary share)	<u>192,753</u>	<u>192,753</u>

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

- (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year.

	2011 <i>RMB'000</i>	2010 '000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.14 per share (2010: RMB0.068 per share)	192,753	93,623

14. SHARE CAPITAL

	2011		2010	
	<i>Number of shares</i>	<i>RMB'000</i>	<i>\$</i>	'000
Registered, issued and fully paid:				
State owned equity interest shares of RMB1 each	701,235,000	701,235	701,235,000	701,235
H Shares of RMB1 each	675,571,000	675,571	675,571,000	675,571
At 1 January and 31 December	1,376,806,000	1,376,806	1,376,806,000	1,376,806

Except for the currency in which dividends are paid and restrictions as to whether the shareholders can be PRC investors or foreign investors, state owned equity interest shares and H shares rank pari passu in all respects with each other.

15. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

- (a) In March 2012, the Group entered into a placing agreement to subscribe certain equity securities listed outside Hong Kong for a consideration of RMB388,000,000.
- (b) After the end of the reporting period, the directors of the Company proposed a final dividend. Further details are disclosed in note 13.

16. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

MACRO ECONOMY AND INDUSTRY DEVELOPMENT

In 2011, the European debt crisis has been worsening and spreading around. Developed countries saw a feeble recovery and emerging economies a slowdown in growth. The PRC government insisted upon its course of austerity measures, stable economic growth, price control and structural adjustment to ensure a stable and faster economic development, culminating a 9.2% GDP growth.

In 2011, the Group recorded a turnover of export of RMB5,975.31 million, representing an increase of RMB675.82 million over the previous year and accounted for 20.97% of the turnover of the principal business activities. The export was mainly to such regions as Asia and Africa.

COST

In 2011, the cost of the principal business activities of the Group was RMB22,777.15 million, a decrease of 8.83% over the previous year. The decrease was mainly due to the Group's effort in cost control paid off.

GROSS PROFIT AND GROSS PROFIT MARGIN

In 2011, the gross profit from the principal business activities of the Group was RMB5,710.63 million, an increase of 36.30% over the previous year. The gross profit margin was 20.05%, an increase of 5.69 percentage points over the previous year. Among them the gross profit from thermal power main equipment was RMB3,842.95 million, an increase of RMB1,308.66 million over the previous year. The gross profit margin for thermal power main equipment was 22.22%, an increase of 8.13 percentage points over the previous year. The gross profit from hydropower main equipment was RMB958.99 million, an increase of RMB339.86 million over the previous year. The gross profit margin for hydropower main equipment was 30.32%, an increase of 6.51 percentage points over the previous year. The gross profit from power plant engineering services was RMB278.32 million, an increase of RMB107.84 million over the previous year. The gross profit margin for power plant engineering services was 5.45%, an increase of 2.08 percentage points over the previous year. The gross profit from ancillary equipment for power stations was RMB286.50 million, a decrease of RMB21.06 million over the previous year. The gross profit margin for ancillary equipment for power stations was 39.84%, an increase of 6.37 percentage points over the previous year. The gross profit from the AC/DC motors and other products and services was RMB343.87 million, a decrease of RMB214.47 million over the previous year. The gross profit margin for the AC/DC motors and other products and services was 15.59%, a decrease of 5.81 percentage points over the previous year.

EXPENSES DURING THE PERIOD

The Group's expenses for operation activities during 2011 amounted to RMB558.04 million, an increase of RMB49.25 million or 9.68% over the previous year.

Expenses for administration activities during 2011 amounted to RMB3,040.18 million, an increase of RMB285.30 million or 10.36% over the previous year.

The increase in expenses during the period was mainly due to the increase in staff costs, sales services expenses, depreciation charges and R&D expenses.

INTEREST EXPENSE

In 2011, the Group has incurred financial charges of RMB72.55 million, a decrease of RMB66.99 million over the previous year.

FUNDING AND BORROWINGS

The Group has three major funding sources for operation and development, namely shareholder's funds, trade receivables from customers and bank borrowings. The Group arranges borrowings for each specific project. Except for some special situations, loans will be raised individually by the Group's subsidiaries. However, prior approval from the parent company is required in respect of borrowings raised for capital investments. As the number of orders and advance receipts increased significantly during the past two years, the Group had abundant working capital and has thus repaid substantially all of the loans for working capital. As at 31 December 2011, the total sum of the Group's borrowings was RMB1,895.86 million (31 December 2010: RMB2,209.96 million). The Group's bank borrowings are loans from various commercial banks and the State's policy banks with interest rates stipulated by the state. Among the Group's borrowings, the amount due within one year was RMB581.62 million, a decrease of RMB45.38 million compared to the beginning of the year. The amount of the Group's borrowings due after one year was RMB1,314.24 million, a decrease of RMB268.72 million compared to the beginning of the year.

DEPOSITS AND CASH FLOW

As at 31 December 2011, bank deposits and cash of the Group amounted to RMB8,519.28 million, a decrease of RMB4,030.90 million compared to the beginning of the year. During the period, net cash outflow from operating activities of the Group amounted to RMB2,273.66 million. Net cash outflow from investment activities amounted to RMB672.11 million and net cash outflow from financing activities was RMB241.67 million.

ASSET STRUCTURE AND ITS MOVEMENTS

As at 31 December 2011, total assets of the Group amounted to RMB50,396.05 million, a decrease of RMB360.06 million (or 0.71%) compared to the beginning of the year, among which current assets were RMB42,739.58 million, representing 84.81% of the total assets, and non-current assets were RMB7,656.47 million, representing 15.19% of the total assets.

LIABILITIES

As at 31 December 2011, the Group's total liabilities amounted to RMB37,872.82 million, a decrease of RMB1,719.45 million compared to the beginning of the year, among which total current liabilities were RMB29,022.65 million, representing 76.63% of the total liabilities, and total non-current liabilities were RMB8,850.17 million, representing 23.37% of the total liabilities. As at 31 December 2011, the gearing ratio of the Group was 75.15%.

SHAREHOLDERS' EQUITY

As at 31 December 2011, the total equity attributable to the shareholders of the Company amounted to RMB10,601.62 million, an increase of RMB900.17 million compared to the beginning of the year; the net asset per share was RMB7.70. During the period, the net asset return rate of the Group was 12.1%.

GEARING RATIO

As at 31 December 2011, gearing ratio of the Group (non-current liabilities over total shareholders' equity) was 0.83:1 as compared to that of 1.05:1 at the beginning of the year.

CONTINGENT LIABILITIES AND PLEDGE OF ASSET

As at 31 December 2011, the Group pledged its bank deposits in the amount of RMB131.16 million to secure loans for liquidity.

CAPITAL EXPENDITURES AND MAJOR INVESTMENTS

In 2011, the Group has a total capital expenditure of RMB1,530 million invested in infrastructure constructions and technological upgrades. The particulars of the investments and construction projects are as follows:

The technological upgrade projects for 1,000MW nuclear power ancillary equipment and the newly-built hydropower model laboratory were completed during the year;

The improvement project for domestic nuclear production at conventional islands, the manufacturing and construction project of the main equipment for nuclear island, the self-reliance and improvement project of the main equipment for nuclear island, the construction project of manufacturing base for main pump generators, the manufacturing technology upgrade project for nuclear power reactor-cooling agent pump units as well as the technological upgrade projects for coal chemicals, IGCC and large-scale chemical engineering equipment have reached their final stages;

As regards Phase I of the scientific research base, the technological upgrade project for mass production of 30MW fuel gas compressor units as well as the construction projects for boiler laboratory, technological laboratory and material laboratory have been carried out as scheduled.

In 2012, the Group intends to commit an investment of RMB992 million, which will be mainly used for Phase I of the scientific research base and the technological upgrade project for mass production of 30MW fuel gas compressor units.

On 11 May 2011, the Group subscribed for 200 million A shares of Datang International Power Generation Co., Ltd. under private offering at a price of RMB6.74 per share, totaling RMB1,348 million. The shares were subject to a locked-up period of one year.

As at 31 December 2011, the shareholdings by the Company were as follows:

200 million A shares of Datang International Power Generation Co., Ltd., with a locked-up period of one year;

160 million A shares of GD Power Development Co., Ltd.;

98 million A shares of Huaneng Power International, Inc..

The Group will focus on accomplishing the following tasks in 2012:

Enhancing customer satisfaction and developing markets with full strength

Under the concept of “total marketing”, all our efforts are directed to market development. We strive for higher customer satisfaction by providing meticulous design, production and services, actively responding to their demands for energy saving, reduction of wastage and higher efficiency, and meeting their requirements for performance, quality assurance, construction progress and efficient services. Besides, to provide powerful support for market development, we integrate and re-allocate our marketing resources to maximize the Group’s overall strength.

We will consolidate our presence in the conventional market by gaining a bigger share in the thermal power market, maintaining our competitiveness in the hydropower market and developing the nuclear power market with full strength. We will also continue to develop the markets for combustion engines and environment-friendly products as well as such new products as IGCC, compressors, photovoltaic power generation, wind power, seawater desalination, etc.. Driven by the exportation of EPC projects and main equipment as well as the provision of up-to-date services for the manufacturing sectors, we have taken a big step in exploring the overseas markets and the service markets.

Tightening cost control and enhancing operating efficiency

We will tighten cost control to actively cope with the complex economic environment. By promoting the “total cost” model, we manage and control by allocating the costs to the design, procurement, production and sales segments.

We will perform strict budget management to step up control on cash flows. Measures adopted include timely recovery of receivables, reduction of unnecessary expenses, squeeze on overhead, further reduction of inventory, and optimal utilization of funds by tapping new resources while reducing expenditure.

Capitalizing on the benefits of tendering process, we will lower procurement cost by expanding the scope of procurement. We will also fully utilize in-house capacity to reduce the amount of outsourcing operations and cut down on outsourcing prices to contain the expenditure on outsourcing.

Speeding up technology innovation and pushing through structure adjustment

Bearing market demand and national policies in mind, we will continue on our course of technology advancement and product upgrading. To sharpen our competitive edge in terms of technology, we will step up our efforts in self-initiated innovation along with the absorption of transferred technology. To provide technical support for product improvement and upgrading, we will meticulously work on the performance and projects of high capacity thermal power and hydropower generating units. To enhance our own capabilities in designing and manufacturing nuclear power products, we will conduct in-depth research into the design and manufacture of the AP1000 nuclear power equipment. To ensure smooth execution of contracts in hand, we will work on the technology transfer for 9FB gas turbine.

Leveraging on technology innovation, we will speed up the process of adjusting the industry structure and incubate budding businesses so as to set up new growth points. To lay a foundation for the Group's long term development, we will achieve breakthroughs in the research of such new segments as coal chemicals, seawater desalination, photovoltaic power generation and compressors.

For the purpose of expanding our nuclear power segment, the Group is setting up its own design institute for nuclear power equipment to build up its capabilities in the design and supply of nuclear power turnkey projects and complete the industry chain.

We will accelerate the construction of a manufacturing base for compressors. Taking advantage of the contracted projects, construction and production will be effected simultaneously to expedite the prototyping process.

We will also accelerate the construction of a wind farm in Zhenjiang with particular attention being paid to technology transfer and absorption, installation and fine-tuning of equipment, and pre-commissioning preparations.

Enhancing management and developing fundamentals in a pragmatic way

The Group has marked 2012 as its "Management Enhancement Year". Quality of workflow and products is placed high on the priority list to attain a higher degree of efficiency and economic benefits.

Under the comprehensive quality enhancement directive, performance will be assured by technology advancements, product quality by effective system and service quality by efficiency and integrity.

We will closely monitor the inherent risks and actual progress of the projects so as to effect timely adjustment to our implementation strategies and ensure contracts will be honoured. Under the principle of total control and high precision, the Group will further deepen its development of human resources by expanding its workforce, strengthening personnel training, supervision and assessment as well as optimizing its execution capabilities.

Under the principle of necessary prudence and tight control, the Group will conduct systematic reviews and examinations as well as post-assessments on the infrastructure and investment projects underway.

The Group will make greater contribution to the society in terms of conservation of energy and reduction of emission by applying the same principle to itself in environmental protection, cost-saving and effectiveness enhancement.

DIVIDEND

A dividend of RMB0.14 per share (appropriate tax included) for 2011 (2010: RMB0.14 per share) was proposed by the board of directors, which remained unchanged as last year.

Dividends payable to shareholders of H share will be paid in Hong Kong dollar at the average of the exchange rates quoted by the People's Bank of China for the five days preceding 17 March 2012, which is RMB1 for HK\$1.2259. The dividend for every H share will be HK\$0.1716.

CLOSURE OF REGISTER

The Register of members of the Company will be closed from 23 May 2012 to 25 May 2012 (both dates inclusive). Final dividend for 2011 will be distributed by 13th July, 2012 to shareholders whose names appear in the Register of members of the Company on 23 May 2012. In order to qualify for the final dividend for 2011, all completed transfers accompanied with the relevant share certificates must be lodged with the Company's Registrar, namely Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on 22 May 2012.

DIVIDEND TAX

Pursuant to the "PRC Individual Income Tax Law" (《中華人民共和國個人所得稅法》), the "PRC Implementation Regulations of the Individual Income Tax Law" (《中華人民共和國個人所得稅法實施條例》) 6 W Ô D O D O ü O O 7 ' .

For individual H Shareholders whose country of domicile has entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual H Shareholders. The individual H Shareholders may apply for refund of excess amount of individual income tax withheld by providing relevant information for approval by taxation authority;

For individual H Shareholders whose country of domicile has entered into a tax treaty with the PRC stipulating a dividend tax rate of over 10% but less than 20%, the Company will withhold and pay individual income tax at the actual rate stipulated by the relevant tax treaty on behalf of the individual H Shareholders;

For individual H Shareholders whose country of domicile has entered into a tax treaty with the PRC stipulating a dividend tax rate of 20% or has not entered into any tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the individual H Shareholders.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination, of the status of the shareholders of the Company or any disputes over the mechanism of withholding.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2011, none of the directors, supervisors and senior management of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or of any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which any such director, supervisor or senior management is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the Register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listing Companies as contained in Appendix 10 to the Listing Rules.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the year, none of the Directors or Supervisors has any interest, whether directly or indirectly, in the contracts of significance, to which the Company or any of its subsidiaries is a party.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or PRC Law, which would require the Company to issue new shares to the existing shareholders according to their respective proportions of shareholding.

MODEL CODE

The Company, having made specific enquiry, confirms that all members of the Board complied with the Model Code set out in Appendix 10 of the Listing Rules throughout the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the year of 2011 with all code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules of the Stock Exchange.

AUDIT COMMITTEE

The Audit Committee had reviewed the annual results and the audited financial statements of the Group for the year ended 31 December 2011, and discussed with the Board the financial reporting procedures as well as the internal control system.

AUDITORS

The current PRC auditor of the Company is Crowe Horwath China CPAs, and the Hong Kong auditor is Crowe Horwath (HK) CPA Limited.

By order of the Board
Gong Jing-kun
GJ

17 March 2012

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